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California Postsecondary Education Commission

Executive Compensation in California Public Higher Education, 2003-2004

There have been no increases in average annual salaries for University and State University executives between the 2002-03 and 2003-04 years. Presidents of the State University lag national comparators by 37.8% while University Chancellors earn 37.5% less than their colleagues in other states.

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The Commission advises the Governor and Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the state's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

Pursuant to legislative directive, this 2003-2004 Executive Compensation Report is the eleventh in a series that reviews the policies and resultant compensation levels for executives in California public higher education. The specific language guiding the Commission on this issue is:

It is the intent of the Legislature that the University of California and the California State University report to the California Postsecondary Education Commission on January 1 of each year, beginning on January 1, 1993, on the level of the total compensation package for executives of the University of California (including the president, senior and vice presidents, and campus chancellors) and the California State University (including the chancellor, senior and vice chancellors, and campus presidents), respectively It is the intent of the Legislature that the California Postsecondary Education Commission review the information provided and transmit its comments thereon to the Joint Budget Committee, the fiscal committees of each house, the appropriate policy committees of each house, and the Governor on or before March 1 of each year, beginning on March 1, 1993.

This report focuses on describing changes in executive compensation in California public colleges and universities between 2002-03 and 2003-04. It also provides information comparing compensation at the two universities with comparable institutions over the last 11 years.

The Commission's Perspective and Responsibility Regarding Executive Compensation

The Commission has historically viewed executive compensation through the following lens:

- ♦ Executives play various roles in public colleges and universities -- educational leader, corporate administrator, and public servant. The development of policy and the resultant setting of compensation levels is a complex undertaking that requires an understanding of the myriad responsibilities assumed by these executives at the campus and systemwide levels;
- ♦ College and university executives can contribute immeasurably to the quality of educational environments in which they function;
- ♦ Despite the relative small expenditure of funds on executive compensation, this issue has the potential to generate enormous public relations concerns for institutions.

Because the governing boards of the two public university systems and the local boards of trustees of community college districts set the compensation levels for their executives, the Commission's specific responsibilities with respect to the issue of executive compensation are to provide information on: (1) the policies that guide the setting of compensation levels, (2) the levels set each year, and (3) the relationship between the compensation paid to California's public higher education executives and their national comparators.

Additionally, Commission staff participates in discussions about the appropriateness of the set of comparators for the California State University and University of California. In discharging these responsibilities, the Commission has continued to focus its attention on the contribution that strong executive leadership makes to educational quality in California's public colleges and universities.

CALIFORNIA COMMUNITY COLLEGES

Compensation for Executives in Community College Districts

Each of the 72 community college districts in California is responsible for setting the compensation of its executives. As such, the policies that guide the setting of compensation vary widely across the state as do the resultant compensation levels. Display 1 presents summary information for three types of executives in community college districts: (1) chancellors of multi-college districts; (2) campus presidents within multi-college districts; and (3) superintendents/presidents of single-college districts.

The trends presented in Display 1 indicate the pattern of change between 2002-03 and 2003-04 and vary by executive type.

- ♦ The average compensation of *chancellors of multi-college districts* increased by 1.7% over last year. The salary for the lowest paid chancellor position increased by approximately 3.9% and the highest paid chancellor salary decreased by 6.3%. As a consequence, the difference between the highest paid chancellor and the lowest paid chancellor decreased by 27% since last year.
- ♦ For *presidents in multi-college districts*, the average compensation increased by 1.4% over last year. The salary for the lowest paid president increased by 1.1% and that of the highest paid president did not change; as such, the difference between the salaries of the highest and lowest paid president in multi-college districts decreased by 3.5%.
- ♦ For *superintendent/presidents in single-college districts*, the average compensation increased by 1.4% over the last year. The lowest salary increased by 0.7% while the highest salary increased

0.4%. The difference between the highest and lowest paid superintendent/president in single-college districts increased by 0.1%.

DISPLAY 1 Compensation of Executives in Community College Districts, 2002-02 and 2003-2004

Type of Executive	2002-03	2003-04	Change
<i>Chancellors of Multi-College Districts</i>			
Number	20 (15)*	20 (15)	
Average Annual Salary	\$186,672	\$189,804	1.7%
Lowest Salary	\$160,782	\$167,038	3.9%
Highest Salary	\$240,000	\$224,844	-6.3%
Range	\$79,218	\$57,806	-27.0%
<i>College Presidents in Multi-College Districts</i>			
Number	57 (44)	58 (48)	
Average Annual Salary	\$137,517	\$139,436	1.4%
Lowest Salary	\$123,000	\$124,400	1.1%
Highest Salary	\$162,708	\$162,708	0.0%
Range	\$39,708	\$38,308	-3.5%
<i>Superintendents/Presidents in Single-College Districts</i>			
Number	52 (44)	52 (49)	
Average Annual Salary	\$156,506	\$158,641	1.4%
Lowest Salary	\$118,637	\$119,486	0.7%
Highest Salary	\$229,000	\$230,000	0.4%
Range	\$110,363	\$110,514	0.1%

* Actual number of respondents.

The figures in Display 1 do not include annual educational stipends paid to the 27 chancellors, presidents, or superintendents at the community colleges who hold doctoral degrees. The stipends range from \$1,200 to \$14,609, with an average of \$3,255 and are not restricted in the way they are used.

Compensation for Systemwide Executives

The Chancellor's Office of the California Community Colleges is a State agency that operates under the rules, regulations, and procedures set by the Department of Personnel Administration, the State Personnel Board, and the Department of Finance. Unlike its public higher education counterparts, the Board of Governors is restricted in its ability to establish compensation levels for its executive staff.

For the purposes of this report, the executives of the Community College Chancellor's Office include the following 11 positions:

- ♦ Chancellor,
- ♦ Executive Vice Chancellor,
- ♦ Vice Chancellor, Administration and Fiscal Policy,
- ♦ Vice Chancellor, Legal Affairs and Contracts,
- ♦ Vice Chancellor, Human Resources,
- ♦ Vice Chancellor, Educational Services and Economic Development,
- ♦ Vice Chancellor, Policy, Planning, and External Affairs (vacant),
- ♦ Vice Chancellor, Student Services and Special Programs (vacant),
- ♦ Director, Internal Operations,

- ♦ Director, College Facilities and Fiscal Affairs (vacant), and
- ♦ Director, Fiscal Policy.

The salaries for executives in the Community College Chancellor's Office range from \$86,841 to \$183,276. These positions are comprised of a combination of civil service, exempt positions, and persons hired under inter-jurisdictional exchange agreements. The Chancellor's current salary is \$183,276, an increase of \$6,624 or 3.6% over the 2002-03 Chancellor's salary. The Chancellor also receives \$60,000 a year from the Foundation for the California Community Colleges. Additionally, the Deputy Chancellor earns an annual salary of \$125,723, representing an increase of 4% over the prior year. The remaining vice chancellors earn between \$86,841 and \$116,637.

Commission Comments

The basic principles underlying executive compensation decisions in the community college districts continue to be autonomy and flexibility and are influenced by recruitment and retention needs as well. Each district makes a determination presumably based upon its financial condition, performance of the incumbent, local living costs, and board prerogatives. As Display 1 shows, this principle has resulted in disparities in compensation levels within each of the three categories. A portion of this can be explained by turnover in executive positions at the campus and district level that has resulted in new hires being offered lower starting salaries than the salary levels the incumbent had at the time of his or her departure. However, such occurrences do not explain the disparity entirely.

The combination of exempt, Career Executive Appointments (CEA), and Inter-jurisdictional Exchanges creates a complex and perhaps overly complicated configuration of personnel and salary levels. The Chancellor's Office continues to use a variety of personnel classifications among its executive staff with some State employees and others serving in their capacity through an Inter-jurisdictional Exchange. While this makes for a certain lack of clarity with respect to the various classifications and responsibilities of the executive staff, it does provide the Chancellor's Office with the ability to make use of the vast expertise of individuals who have served the system well at the campus level.

CALIFORNIA STATE UNIVERSITY

Current Policy on Executive Compensation

The California State University's policy on executive compensation calls for the State University to set its average compensation for campus presidents at the mean of presidential salaries at an established set of comparable institutions in the nation. Further, the policy recommends that the specific compensation for each president be based on the "mission, scope, size, complexity, and programs of each campus" and an appraisal of individual performance and experience as well as system and national policy leadership.

Merit assessments, according to stated criteria, are also used as well as recruitment and retention experience. These criteria include an assessment of the president's general administrative effectiveness, his or her working relations with the system and with the campus, educational leadership and effectiveness, community relations, major achievements of the campus and the president, and other relevant personal characteristics. Also considered are regional cost of living differentials and the need to maintain a competitive market position.

Compensation for Campus Presidents

Display 2 presents the average compensation levels for the presidents of the State University's 23 campuses for the academic years 2002-03 and 2003-04. Four campus presidents and one vice chancellor

resigned or retired during the year. A fifth president left a position at one campus to assume the presidency at another campus.

DISPLAY 2 Compensation for Presidents of 23 California State University Campuses, 2002-03 and 2003-04

	2002-03	2003-04	Change
Average Annual Salary	\$217,503	\$217,064	0%
Lowest Salary	\$188,124	\$188,124	0%
Highest Salary	\$253,440	\$253,440	0%
Difference between highest/ lowest salaries	\$65,316	\$65,316	0%

During the reporting period, President Gerth at CSU Sacramento and President Suzuki at Cal Poly Pomona retired from their presidential positions June 30, 2003, and July 31, 2003, respectively. Dr. Alexander Gonzalez, former president of CSU San Marcos, was appointed president of CSU Sacramento and Dr. J. Michael Ortiz was appointed president at Cal Poly Pomona. Additionally, President Caret of San Jose State University accepted a position outside of the CSU as of June 30, 2003. Interim presidents were appointed at San Jose State University and CSU San Marcos. Also, effective August 1, 2003, President Esteban retired from his presidential position at CSU, Chico and Dr. McNall was appointed interim president until February 1, 2004, when Dr. Zingg was appointed president.

Salary Comparisons Between the State University and Similar Institutions Nationally

For several years, the State University and the Commission have agreed upon a set of 20 institutions that serve as the State University's comparators for the purpose of gauging the extent to which its salaries are similar to those of institutions with which it competes for faculty and executives. Five of the comparison institutions are private. The remaining 15 are public universities. Display 3 lists the 20 comparison institutions that have been used since 1990.

DISPLAY 3 List of Comparison Institutions for California State University

Arizona State University	University of Nevada
Bucknell University*	North Carolina State University
Cleveland State University	Reed College*
University of Colorado	Rutgers, the State University of New Jersey
University of Connecticut	State University of New York
George Mason University	University of Southern California*
Georgia State University	University of Texas at Arlington
Illinois State University	Tufts University*
Loyola University of Chicago*	Wayne State University
University of Maryland	University of Wisconsin

* = Private university.

Lag in salaries at the presidential level: In the mid 1990s, the Commission's executive compensation reports revealed a growing gap in the salaries of the presidents of the California State University campuses and those of the presidents of their national comparison institutions. The chief executive officers of the comparison institutions earned an average of \$299,132 in 2003-04; the corresponding figure for the 23 State University presidents is \$217,064. The lag between the average salary of State University presidents and the comparison institutions over the past 11 years is presented in Display 4. In 1994-95, the salary lag doubled from 11.1% to 22.5% and continued to rise to 31.9% in 1995-96. The Board of Trustees embarked on a deliberate plan to reduce the significant lag of California State University presidential salaries. However, while the salary lag was reduced significantly between 1998-99 and 2000-01, in the past three years, the salary lag has jumped to 37.8% for the 2003-04 year, the largest in the last 11 years.

DISPLAY 4 Average Compensation for California State University Presidents and Their National Comparators, 1993-94 to 2003-04

	National Comparators	California State University	Salary Lag
1993-94	\$144,908	\$130,462	- 11.1%
1994-95	\$162,728	\$132,796	- 22.5%
1995-96	\$179,180	\$135,870	- 31.9%
1996-97	\$184,415	\$141,865	- 30.0%
1997-98	\$191,426	\$155,360	- 23.2%
1998-99	\$200,684	\$174,412	- 15.1%
1999-00	\$214,811	\$197,206	- 8.9%
2000-01	\$227,678	\$207,251	- 9.8%
2001-02	\$257,908	\$212,897	- 21.1%
2002-03	\$272,617	\$217,503	- 25.3%
2003-04	\$299,132	\$217,064	- 37.8%
11-year average percentage increase	8.0%	5.0%	

Compensation for Systemwide Executives

Six positions constitute the executive staff at the Chancellor's Office of the California State University. They are: (1) Chancellor; (2) Executive Vice Chancellor and Chief Academic Officer; (3) Executive Vice Chancellor and Chief Financial Officer; (4) Vice Chancellor, University Advancement (vacant); (5) Vice Chancellor, Human Resources; and (6) General Counsel.

The compensation level for the Chancellor is \$316,692, which represents a 0% increase over the 2002-03 level. The Executive Vice Chancellor and Chief Executive Academic Officer's salary remained at \$239,160. The salaries for the remaining executives now range from \$195,672 to \$209,520, also representing no increases.

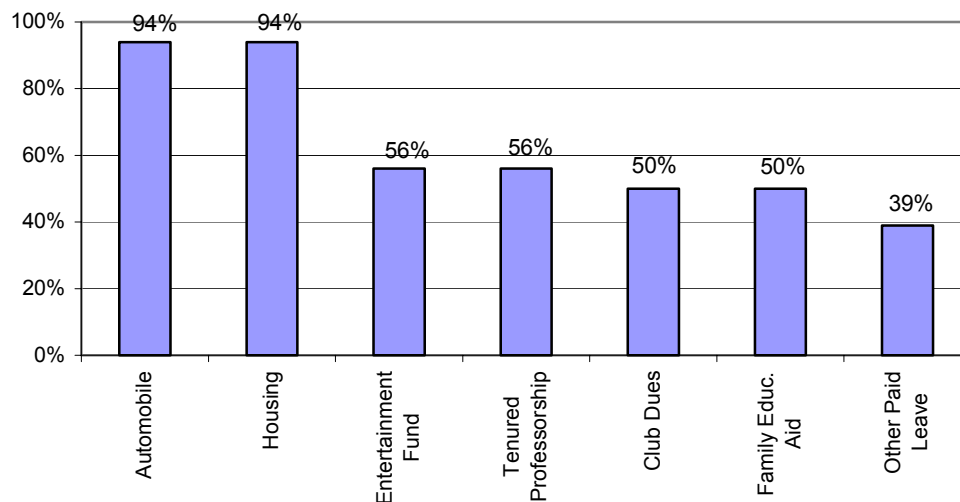
Non-Salary Perquisites for Campus Presidents and Executives

The benefits package for California State University executives varies slightly from other management within the system. State University executives receive the same general health, welfare, long-term disability and retirement employee benefits package as other management within the system with the exception of an enhanced life insurance program of \$250,000 and an annual physical examination. The paid-time program including vacation, sick leave, and holidays is also the same. CSU provides mandated benefits to executives in the areas of industrial and non-industrial disability, workers compensation, and employment insurance. The university also provides a fee-waiver program to dependents of executives similar to the program provided to faculty, management, and other staff employees.

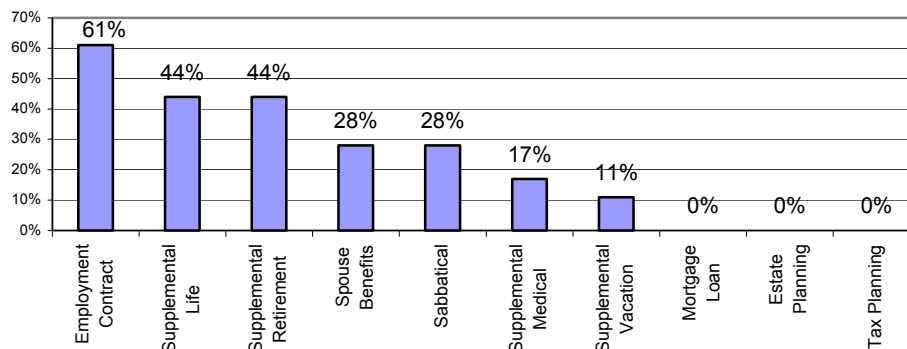
In addition to their base salaries, all presidents receive assistance with housing. Annual housing allowances range from \$23,004 to \$36,804, depending upon cost-of-living differentials -- with the highest allowances provided for presidents located in the high priced areas, according to the State University, of the San Francisco Bay area, San Jose, San Marcos, Sacramento, and Sonoma. The Chancellor lives in university-provided housing. Further, campus presidents have access to either a State-owned automobile for business purposes or are provided an automobile allowance of \$750 per month in lieu of a university vehicle to support university related business travel requirements. In addition, presidents are reimbursed for entertainment expenses incurred as part of university-related activities in accordance with the system's rules and regulations. There is no set formula or cap on the level of expenses, but they must be justified and used for institutional development. Sources included both general fund and private funds.

With the exception of the physical exam and paid leave, the majority of comparison institutions offer their presidents the same perquisites. In addition, some institutions offer their presidents additional perquisites that are not available to CSU campus presidents. Those perquisite types reported were employment contracts, estate planning, loans, sabbatical, spousal benefits, supplemental medical, supplemental life insurance, supplemental retirement, supplemental vacation, and tax planning. Displays 5 and 6 illustrate the range and availability of perquisites to State University presidents as compared to comparison institutions and the percentage of comparison institutions reporting perquisites not offered at the State University.

DISPLAY 5 Percentage of Comparison Institutions that Offer Perquisites for which CSU Presidents are Eligible



DISPLAY 6 Perquisites Not Offered to CSU



Retirement

All CSU executive employees participate in a defined benefit retirement plan provided by the Public Employees' Retirement System (PERS). The benefit is calculated based on age at retirement, years of service and compensation. The employee contributes 5% of gross monthly salary in excess of \$531 per month. The State University employer contribution for fiscal year 2003-04 is 14.843% of compensation up to \$205,000. Employer contributions are set actuarially each year.

Commission Comments

CSU executive salaries are funded exclusively from state resources. Information is not available with regard to source-of-funding for executives at comparable public institutions but it is possible that they use private funding to supplement their general fund allocations for executive salaries. This could contribute to the substantive difference in average salary between CSU executives and their comparator institutions.

The Commission continues to support the efforts of the Board of Trustees to ensure that executive compensation is adequate to recruit and retain capable campus leaders, provided additional resources allotted are considered in conjunction with other pressing demands for university resources.

UNIVERSITY OF CALIFORNIA

Current Policy on Executive Compensation

The University's policy on executive compensation calls for the Board of Regents to set the average compensation level for chancellors at the mean of its national comparators, with the actual level paid to each chancellor a function of "the scope, size, complexity, and quality of each campus" as well as the performance and experience of the incumbent. This policy is expected to both "maintain a competitive market position and recognize individual performance." A hallmark of the policy is the establishment of an internal alignment among and between the set of chancellor positions and executives in the system-wide office.

Compensation for University Chancellors

Display 7 presents information on the aggregate changes in compensation levels over the last two years for the chancellor positions in the University. There were no salary adjustments from 2002 to 2003.

<i>DISPLAY 7 Compensation of Chancellors at the University of California, 2002-03 and 2003-04</i>			
	October 2002	October 2003	Change
Lowest Salary	\$253,600	\$253,600	0%
Highest Salary (excluding UCSF)	\$315,600	\$315,600	0%
Difference between high- est/lowest salaries	\$62,000	\$62,000	0%
Average Annual Salary (includes San Francisco)	\$290,490	\$290,490	0%
Average Annual Salary* (excludes San Francisco)	\$282,889	\$282,889	0%
*Of the nine general campuses only. Excludes the Chancellor of the University of California, San Francisco because of the uniqueness of the campus.			

Salary Comparisons Between the University and Similar Institutions Nationally

As with the State University, the executive compensation policy calls for the University of California to set its average chancellor salary at the mean of its national comparators. Display 8 lists the institutions of higher education that comprise the All-University Set of 26 campuses or systemwide offices, 22 of which participated in the 2003 survey (Display 8). The four institutions which did not report data are the University of Chicago, John Hopkins University, the University of Pennsylvania, and the University of Minnesota, Twin Cities. This comparison set of institutions has been used since 1992.

*DISPLAY 8 Institutions Comprising the All University Set of Comparison
Institutions for the University of California*

Brown University*	University of Minnesota (system)
California Institute of Technology*	University of Minnesota (Duluth)
University of Colorado, system	Northwestern University*
University of Colorado, Boulder	Stanford University*
Columbia University*	State University of New York (Buffalo)
Cornell University*	State University of New York (Stony Brook)
Harvard University*	University of Texas
University of Illinois, Chicago	University of Virginia
University of Illinois, Urbana	University of Washington
Massachusetts Institute of Technology*	University of Wisconsin
University of Michigan	Yale University*

* = Private university.

Of the 13 public universities reporting in the comparison group, ten pay their executives entirely through State funds. The remaining three public institutions use a combination of State and private funding sources.

Lag in salaries at the Chancellor level: Display 9 presents the trend in compensation paid to the University's campus chancellors and their national comparators over the last 11 years.

*DISPLAY 9 Average Compensation for University of California Chancellors
at the General Campuses and Their National Comparators, 1993-94 to 2003-04*

	All University Set	University of California	Salary Lag
1993-94	\$215,765	\$181,950	- 18.6%
1994-95	\$202,580	\$181,413	- 11.7%
1995-96	\$214,546	\$189,300	- 13.3%
1996-97	\$214,209	\$199,413	- 7.4%
1997-98	\$257,791	\$207,238	- 24.4%
1998-99	\$284,116	\$244,363	- 16.3%
1999-00	\$296,284	\$263,333	- 12.5%
2000-01	\$323,030	\$273,267	- 18.2%
2001-02	\$354,730	\$278,722	- 27.3%
2002-03	\$369,480	\$282,889	- 30.6%
2003-04	\$389,067	\$282,889	- 37.5%
11-year average percentage increase	9.2%	4.4%	

In 1996-97, the salary lag was at its lowest, dropping from 13.3% in 1995-96 to 7.4% in 1996-97. In 1997-98, however, the salary lag reached a high of 24.4%. Aggressive action taken by the Regents to implement both merit salary increases as well as market based equity adjustments reversed this sharp two-year increase, reducing the lag by half in 1999-00. Since that year, the gap has almost tripled and University of California chancellors now earn salaries that are an average of 37.5% less than their comparators.

Compensation for Systemwide Executives

The University policy calls for the salaries for executive positions at the systemwide office to be aligned with those of the chancellors for the various campuses.

The salary of the President of the University of California, appointed October 1, 2003, is \$395,000. This represents an increase of 9.3% over the former president's salary of \$361,400.

The annual base salary of the Senior Vice President, Business and Finance is now \$350,000, the salary of the newly appointed (April 1, 2004) Provost and Senior Vice President Academic Affairs is \$380,000, and the salary of the Senior Vice President, University and External Relations is \$269,000.

As of October 1, 2003, there was great variation in the annual base salary levels of six of the seven vice presidents, ranging from \$207,000 to \$337,000. Because of the uniqueness of the position, the Vice President for Clinical Services Development earns considerably more than the other vice presidents at an annual base salary of \$395,000. In addition, this position is eligible for additional compensation of up to \$75,000.

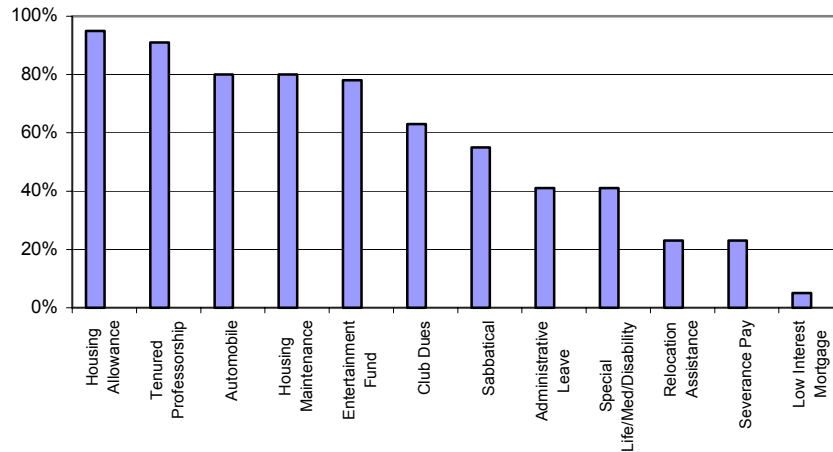
Non-Salary Perquisites Offered to Executives at the University of California

In addition to a base salary, university chancellors are eligible for 12 perquisites in total. (Display 10) Perquisites offered to university chancellors include housing, tenured professorship, auto, housing maintenance, entertainment, club dues, sabbatical, administrative leave, special life/disability, relocation assistance, and low interest mortgages. Of these perquisites, seven are offered by more than half of the survey participants. Display 11 presents the three surveyed perquisites not offered by UC (driver, education aid to family, and financial planning). These perquisites are much more common among private universities than public universities.

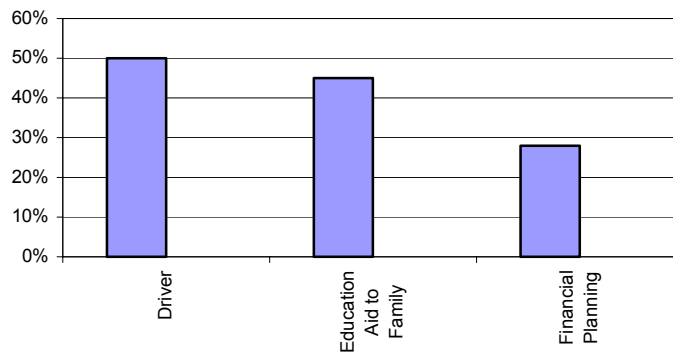
Additionally, university-leased vehicles are provided to chancellors for their use on campus business, and they receive reimbursement for expenses incurred in conjunction with university business through procedures consistent with University Administrative Fund guidelines.

The president and all chancellors live in university-provided housing. All executives have university-leased automobiles or are reimbursed for expenses incurred in conjunction with the conduct of university business. Further, they are reimbursed for appropriate university expenses in conjunction with the discharge of their university responsibilities and in accordance with Administrative Fund guidelines.

DISPLAY 10 Percentage of Comparison Institutions Offering Same Perquisites as those Offered to UC Chancellors



DISPLAY 11 Perquisites Offered by Comparison Institutions, Not Offered to UC Chancellors



Retirement

The University of California Retirement Plan (UCRP) provides retirement income for eligible employees (and their eligible survivors and beneficiaries) of the University and its affiliate, Hastings College of the Law. The University also provides disability and death benefits, a lump sum cash payment, and, for certain members, a Capital Accumulation Provision.

UCRP is a governmental defined benefit pension plan established and maintained under Internal Revenue Code Section 401(a). Benefits are determined not by contributions to the Plan, but by defined formulae that vary according to the type of benefits payable (for example, retirement, disability, or survivor benefits). Benefits paid are a function of age, length of service and salary, and there is a wide variance between the lowest and highest benefits that would be payable to the current chancellors.

Commission Comments

The Commission supports the efforts of the Regents of the University of California to ensure that executive compensation is adequate to recruit and retain capable campus leaders. It should be noted that, subsequent to the 2003-04 data that was compiled for this report, the University hired two new chancellors from outside the system who will begin their positions in fall 2004. The University has reported that, in order to compete with their national comparators, it will compensate these new chancellors with salaries of \$350,000 for the San Diego chancellor (a 25.5% increase over the prior incumbent's salary) and \$390,000 for the Berkeley chancellor (a 24.5% increase over the prior incumbent's salary).

Conclusions and Recommendations

There are numerous methods for evaluating executive compensation. The method used by the Commission is one that calculates the lag or excess in salary paid to executives at comparable institutions, when compared to UC and CSU executives respectively. However, it does not assess the value of benefits or perquisites as part of a total compensation calculation. The commission has been unable to obtain perquisite and benefit information from the systems. Benefits and perquisites provided to executives can be quite substantial, and hence the Commission's methodology does not present a complete picture of the value of individual compensation packages. For this reason, staff recommends that, if this report is issued in the future, the Commission convene an advisory committee comprised of representation from the University of California, California State University, California Community Colleges, California Postsecondary Education Commission, Department of Finance, and the Legislative Analyst's Office to begin discussions with the goal of identifying a new methodology with a broader scope that encompasses all forms of compensation.

Because of the linkage between faculty salaries and executive compensation, the Commission recommends that, if the two reports are issued in the future, every effort be made to publish them jointly.